

PD-AAF-679

9310989001801

AGENCY FOR INTERNATIONAL DEVELOPMENT

Washington, D.C. 20523

OFFICE OF AUDIT

AUDIT REPORT

BAHAMA LIVESTOCK RESEARCH AND DEVELOPMENT

Project No. 931-11-130-989-73

PROJECT EXPIRATION DATE: January 19, 1978
AUDIT PERIOD : January 19, 1973 through January 31, 1974
TYPE OF AUDIT : Interim

Audit Report No. 74-023

Date: JUL 09 1974

BAHAMA LIVESTOCK RESEARCH AND DEVELOPMENT

Table of Contents

	<u>Page</u>
I. INTRODUCTION	1
II. SUMMARY	1
III. FINDINGS AND RECOMMENDATIONS	2
Plan of Operation	2
Project Funding	5
Acquisition of Cattle	6
Bahamian Counterparts	7
Contract Deficiencies	7
Cost Records	8
Equipment	8
Administrative Matters	9
a. Financial Coordination	9
b. Control and Maintenance of Vehicles	10
c. Leave Records	10
c. Wage Policies	
IV. BACKGROUND AND SCOPE	11

EXHIBIT A - Distribution of Report

BAHAMA LIVESTOCK RESEARCH AND DEVELOPMENT

I. INTRODUCTION

We have made an initial audit of the Bahama Livestock and Research Project. The project agreement signed January 1973 provides up to \$10 million dollars over a five year period to further livestock development in the Bahamas.

II. SUMMARY

Each of the contract parties involved in the Bahama Livestock Project - Western Institute of Science and Technology (WIST) and Pennsylvania State University (PSU) - are co-equal prime contractors, one responsible for development, the other for research. This dichotomy has resulted in differences of opinion on how to best achieve basic project objectives and lack of a specific plan of action that includes benchmarks for implementing various phases of the project. Because of this condition, we were unable to assess project progress. We recommend that all parties concerned meet and establish definitive program objectives and develop a joint long-range plan of operation that sets a timetable for implementation (page 2).

-- A.I.D. has made a total of \$10 million available over a five year period to finance project activities. We estimate a budget need for at least \$12 million to meet all objectives set forth in the project agreement. Because of this possible overrun, the project should be reviewed immediately so that adjustments in funding or objectives can be made if necessary (page 5).

-- Cattle are necessary to the project, but should not be brought to Andros Island until sufficient pastureland for grazing has been developed (page 6).

-- In the near future, there will be seven contract professionals working on the project, but only three Bahamian counterparts appointed by the Ministry of Agriculture. We believe that the Bahamian Government should assign one local counterpart official to work with each contract professional (page 7).

-- During the first 10 months of its contract, the Western Institute for Science and Technology has received approximately \$570,000 in advances from A.I.D. but has not submitted a report of expenditures. Also, WIST has expended some \$46,000 in local salary costs which are not included in the line item budget of the contract (pages 5,7,8).

III. FINDINGS AND RECOMMENDATIONS

Plan of Operation

In January 1973, A.I.D. and the Government of the Commonwealth of the Bahamas agreed to collaborate in the establishment of a five year pilot project in livestock development in Andros Island. The overall objective of the project is to gain useful knowledge relating to the development of agricultural programs based upon livestock production in non-traditional Cultures and environments. This objective necessitates making in-depth socioeconomic studies relating to the production and marketing of livestock and should include cost-of-production studies, input-output analysis, marketing demand and marketing cost studies, and recommendations on alternative marketing procedures.

The project agreement lists a number of activities that should be carried on which can be divided into two general parts - physical development and research. On the physical development side, the Western Institute for Science and Technology is responsible for logistical support, vocational training, development of satellite farms, construction of facilities, and day-to-day operations. Pennsylvania State University is responsible for the research aspects of the project which includes establishing an agricultural research and development and training center primarily devoted to the production of livestock. Penn State is also required to set up a simple cost accounting system that can be taught to and utilized by satellite farmers.

During the planning stages, two schools of thought evolved on how to best administer project activities. Initially, A.I.D. envisioned that Penn State would be the prime contractor responsible for research and overall management, and Western Institute would be a sub-contractor responsible to Penn State for development. Later it was decided to reverse the roles and have Western Institute act as the prime contractor and Penn State the sub-contractor responsible to Western Institute for research. Still later, a compromise was reached and it was decided that both Penn State and Western Institute would be co-equal prime contractors, each responsible for its respective activities. The WIST Resident Director was given the responsibility for "coordinating" the development activities necessary for the operation of the project with research work conducted. The A.I.D. Project Manager is to arbitrate all differences that may result between the parties.

This dichotomy has resulted in differences of opinion on how to best achieve the basic project objectives. For example, Penn State personnel regard the project more in the nature of one designed for pure research, whereas WIST personnel give stress to developmental activities. A.I.D. is in the middle, trying to see that all aspects of the project receive proper attention.

The project agreement spells out the overall goals that are to be achieved in the five year life of the project, but does not provide a timetable as to when various happenings should occur or be completed. At the time of our audit, certain things had been done - some land had been cleared and planted, some construction of facilities begun, some equipment purchased and delivered, and some research activities started. But because there was no specific plan of action that includes benchmarks, we were unable to assess project progress. That is, in terms of completing all activities in five years, we could not determine if various targets are being met on schedule.

Lack of a plan of operation can be attributed, in part at least, to the differences of opinion on how to best proceed that have arisen between Penn State and Western Institute. These differences have not resulted in acrimony, but they do point up a definite need for a specific plan of operation. As things stand now, the project is operating with no schedules or plans established for attaining the various goals. Each of the parties involved - A.I.D., the Government of the Commonwealth of the Bahamas, Western Institute for Science and Technology, and Pennsylvania State University - should get together and establish a meeting of the minds on program objectives and development of a joint long-range plan of operation that sets a timetable for implementing the various phases of the project.

Recommendation No. 1

The Assistant Administrator of the Bureau for Technical Assistance should arrange a joint meeting of all parties in order to establish a plan of operation to develop definitive project objectives and set a timetable for implementing the various phases of the project.

Project Funding

Under the terms of the Project Agreement, the Agency made available \$10 million to finance the project activities over a 5-year period. We examined AID/W and project financial records and found the status of funds at December 31, 1973 to be:

Total Funds Obligated \$10,000,000

Funds Utilized:

A.I.D. Direct Payments:

Purchase Orders	\$35,105	
Travel	<u>7,124</u>	\$42,229

Contract Expenditures:

WIST	\$544,405		
Penn State	<u>66,559</u>	<u>610,964</u>	<u>653,193</u>

Total Funds Remaining \$ 9,346,807

Back in the latter part of 1972 and early 1973, when the project was still in the planning stages, it was reasonably estimated that \$10.0 million would be sufficient to attain all project objectives. Since

then there has been a marked increase in the price of petroleum products as well as a rate of inflation that has run into double digits. Considering these factors, we estimate a need at the present time for at least \$12.0 million to meet all objectives set forth in the project agreement. Because of this projected overrun, the project should be reviewed soonest so that adjustments to funding or objectives can be made if necessary.

Recommendation No. 2

The Assistant Administrator of the Bureau for Technical Assistance should review the project immediately to insure that funding and objectives are consistent.

Acquisition of Cattle

Some 1300 head of cattle costing an estimated \$400,000 are to be purchased in the United States and brought to Andros Island. The cattle should not, however, be brought to the Island before sufficient pastureland for grazing has been developed. None of the cleared acreage had been sown at the time of our audit. No planting of pastureland was contemplated before at least April.

According to the project agronomist, an area should be seeded approximately 60 days before cattle can be allowed to graze. Therefore, cattle should not be shipped to North Andros Island until sufficient pastureland is ready for grazing.

Recommendation No. 3

The Assistant Administrator of the Bureau for Technical Assistance should assure that sufficient pastureland for grazing is available before cattle are delivered to the project site.

Bahamian Counterparts

As required by the Project Agreement, the Ministry of Agriculture has selected a Ministry employee as co-director of the project. Because of other duties, however, he has remained in Nassau rather than move to the project site on Andros Island. Even so, he does take an active part in project activities and visits the Island frequently. The Ministry has assigned two additional counterparts who are located at the project site.

In order to insure a successful continuation of the project at the end of the five year period, we believe the Bahamian Government should assign one counterpart for every long-term contract professional. In the very near future there will be seven such professionals on the staff, but only three Bahamian counterparts appointed by the Ministry.

Recommendation No. 4

The Assistant Administrator of the Bureau for Technical Assistance should obtain a firm commitment from the Ministry of Agriculture and Fisheries to assign additional counterparts to the project in order to assure successful continuation at the end of five years.

Contract Deficiencies

a. The Western Institute for Science and Technology receives funds through a Federal Reserve Letter of Credit. The contract requires a report of expenditures - Public Voucher for Purchases and Services Other Than Personal - to be submitted "periodically," identifying funds expended by line item of the approved budget. During the first 10 months WIST has drawn down approximately \$570,000 but has not submitted a report of expenditures.

b. Article XIIC of the WIST contract authorizes the use of third country or local nationals for non-professional services. The contract budget, however, does not provide for payment of such payroll costs. By the end of January 1974, \$46,448 had been expended for local salaries. If it is A.I.D.'s intention to pay local salary costs, then the WIST contract should be amended to include past and future funding.

Recommendation No. 5

The Bureau for Technical Assistance and the Contracting Officer, SER/CM/OOD, should require WIST to submit quarterly no-pay vouchers to support the FRLC drawdowns and establish the total estimated funding required for local payroll costs and incorporate the funding into the WIST contract.

Costs Records

Pennsylvania State University is required to set up "a cost accounting and record-keeping system ... at the Center with an economic analysis of various production systems." At the time of our site review, the cost accounting and record-keeping system was only in the beginning stages. Until such time that adequate cost records are established, it will be impossible to determine if various aspects of the project will be economically feasible.

Equipment

We noted that local farmers have the idea that project equipment and personnel will be made available for land clearing operations on their privately owned and operated agriculture enterprises. No project equipment or personnel has been diverted to non-project activities, and any such diversion would be a violation of the project agreement.

WIST has responsibility for procuring all equipment needed on the project. The purchasing is done by the WIST home office in Waco, Texas, in conjunction with AID/W and Pennsylvania State University. In reviewing acquisitions, we found that some equipment is being purchased through suppliers from stock rather than directly from manufacturers. We are informed that this is happening because of urgent requirements that preclude the meeting of manufacturing lead time. As a result, manufacturers' discounts are lost. This adds to project costs and stems from the fact there is no plan of operation that can be followed in planning equipment purchases. Once the recommended plan of operation and timetable is developed, purchases can be scheduled to take advantage of discounts.

Recommendation No. 6

The Bureau for Technical Assistance and the Contracting Officer, SER/CM/COD, should ensure that WIST is aware of and employing efficient procurement practices.

Administrative Matters

We found Western Institute's internal controls over financial reporting, vehicles, leave records, and personnel policies to be weak. The present business manager arrived on Andros Island during the latter part of November and has made some noticeable internal improvements, but there are still some areas which require tighter controls:

a. Financial Coordination. Imprest accounting records are maintained at the project site and expenditures are reported monthly to WIST's home office for inclusion in the official accounting records. The field figures reported are misleading because of an incorrect treatment of advances and

refunds. As a result, costs are overstated on the home office books. WIST's Vice President for Administration confirmed our finding and, based upon our suggestions, is taking action to eliminate the problem.

b. Control and Maintenance of Project Vehicles. Ten vehicles have been purchased for use on the project. We found that very little control is being exercised over the use of these vehicles, and there is no preventive maintenance program. At the conclusion of our audit, the business manager began preparing a written policy on use and maintenance of project vehicles which should alleviate the conditions noted.

c. Leave Records. At the present time there are four long-term contract professionals assigned to the project. In the near future several additional professionals will be added to the staff. The use of annual and sick leave should be coordinated between the employees and their respective institutions. This is not being done. At a minimum the business manager should maintain a schedule of annual and sick leave taken and send a copy to each employee's institution regularly.

d. Wage Policies. The initial crew of Bahamians were hired in July 1973 and at the time of our audit there were 32 on the payroll. Minimum and maximum pay scales have been established within job categories, but there are no policies regarding starting salaries, periodic pay increases, work hours, and promotions. Some employees received higher starting salaries than others for the same job. Some were given substantial salary increases during the first months of employment with little or no change in duties and responsibilities. The employees who have not fared as well have shown their displeasure by causing work stoppages and slowdowns.

At a minimum, wage policies should be established to encompass starting salaries, eligibility for increases, maximum amount of increases, overtime, and absenteeism.

IV. BACKGROUND AND SCOPE

During June 1972, in response to a request from the Government of the Commonwealth of the Bahamas, A.I.D. performed a study on the development and implementation of a livestock industry on Andros Island. The study concluded that the Island could support a successful livestock project.

On January 19, 1973 a Project Agreement was entered into between the Ministry of Agriculture and Fisheries (MINAG) and A.I.D. to initiate the project. The general project objectives are to:

1. Establish a center on Andros Island that will provide research information, train people, and demonstrate the feasibility of livestock development.
2. Over the next five years, determine by testing 15 to 20 satellite farms if it is feasible to establish an agricultural system based upon family-sized farms of 50 to 80 acres each that may support beef cattle, dairy cattle, sheep, swine and possibly poultry, as well as vegetable and fruit production.
3. Determine the best and most economical means of bringing land into production by trying various methods and combinations of plowing on the different types of land found on the Island.
4. Conduct research to determine the best type of pastures and feed resources.

A contract for project implementation and logistical support was signed with the Western Institute for Science and Technology (WIST), Waco, Texas, on April 1, 1973, (Contract No. AID/CM/ta-c-73-27). A second contract with

Pennsylvania State University (PSU) for the research phase of the project was signed July 1, 1973 (Contract No. AID/CM/TA-C-73-28). In addition, Texas State Technical Institute is to provide vocational training for the development of skilled technicians.

At the present time Bahama imports approximately \$17.0 million worth of meat and meat products annually. This amount represents about seven percent of the country's annual balance of payments deficit. A corollary effect of the project should be to reduce Bahama's need to import meat and meat products, and thereby help to reduce its trade deficit. The project should also help provide employment opportunities to counter increasing unemployment, a broadened national economic base to reduce dependency upon a highly fluctuating tourist industry, and more outlets and opportunities for expansion of Bahamian entrepreneurial resources.

The Office of Audit has performed an initial audit of the Bahama Livestock Research and Development Project administered by the Bureau for Technical Assistance (AA/TA). Our examination covered the period January 19, 1973 through January 31, 1974 and included a review of pertinent records and documents on file with the Bureau for Technical Assistance and the Office of Contract Management. Field visits to the project site on Andros Island and to the Western Institute for Science and Technology and the Texas State Technical Institute were made.

The purpose was to determine the effectiveness of program planning, implementation, and financial management, as well as the degree of compliance with regulations and procedures governing A.I.D. operations.

BAHAMA LIVESTOCK RESEARCH AND DEVELOPMENT

No. 74-023

Project/931-11-130-989-73

DISTRIBUTION OF AUDIT REPORT

Assistant Administrator TA Bureau	(1)
Associate Assistant Administrator TA Bureau	(5)
Support Division, CM/SD/COD	(3)
Office of Financial Management, SER/FM/CSD	(2)
Inspector General of Foreign Assistance, State	(1)